

**THE LIVING ARTS AND
SCIENCE CENTER, INC.**

Financial Statements

*Years Ended June 30, 2017 and 2016
with Independent Auditors' Report Thereon*



THE LIVING ARTS AND SCIENCE CENTER, INC.

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Independent Auditors' Report

To the Board of Directors
The Living Arts and Science Center, Inc.
Lexington, Kentucky

Report on the Financial Statements

We have audited the accompanying financial statements of The Living Arts and Science Center, Inc. (the Center), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

Board of Directors
The Living Arts and Science Center, Inc.
Independent Auditors' Report, continued

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Living Arts and Science Center, Inc. as of June 30, 2017 and 2016, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Murray Petrey

Murray Petrey, PLLC
Winchester, Kentucky
January 11, 2018

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statements of Financial Position

June 30, 2017 and 2016

Assets	<u>2017</u>	<u>2016</u>
Current assets:		
Cash and cash equivalents	\$ 271,346	\$ 101,342
Accounts receivable	20,086	7,631
Pledges receivable, net	241,222	420,600
Total current assets	532,654	529,573
Beneficial interest in assets held by others	142,464	135,385
Property and equipment, net	5,094,381	5,198,683
Total assets	<u>\$ 5,769,499</u>	<u>\$ 5,863,641</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	\$ 5,900	\$ 204,874
Accrued payroll and related expense	42,763	39,953
Deferred revenue	34,065	27,390
Line of credit	69,255	70,000
Note payable, current portion	7,991	-
Total current liabilities	159,974	342,217
Note payable	239,016	-
Total liabilities	398,990	342,217
Net assets:		
Unrestricted	5,228,045	5,386,039
Permanently restricted	142,464	135,385
Total net assets	5,370,509	5,521,424
Total liabilities and net assets	<u>\$ 5,769,499</u>	<u>\$ 5,863,641</u>

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2017

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	\$ 143,781	\$ -	\$ -	\$ 143,781
Grants	133,832	-	-	133,832
Tuition	128,395	-	-	128,395
Fund for the Arts	117,000	-	-	117,000
Special events, net of expense	83,610	-	-	83,610
Tours and exhibits	71,780	-	-	71,780
Event rental income	26,116	-	-	26,116
Retail shop	13,523	-	-	13,523
In-kind contributions	11,832	-	-	11,832
Membership fees	10,875	-	-	10,875
Change in beneficial interest in assets held by others	-	-	7,079	7,079
Other income	1,547	-	-	1,547
Interest income	-	-	-	-
Net loss on disposal of property	-	-	-	-
Net assets released from restriction	-	-	-	-
 Total revenues and other support	 742,291	 -	 7,079	 749,370
Expenses:				
Program expenses	738,521	-	-	738,521
General and administration	128,307	-	-	128,307
Fundraising	33,457	-	-	33,457
 Total expenses	 900,285	 -	 -	 900,285
 Change in net assets	 (157,994)	 -	 7,079	 (150,915)
Net assets, beginning of year	5,386,039	-	135,385	5,521,424
Net assets, end of year	\$ 5,228,045	\$ -	\$ 142,464	\$ 5,370,509

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statement of Activities and Changes in Net Assets

Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support:				
Contributions	\$ 74,898	\$ 356,873	\$ 5,250	\$ 437,021
Grants	172,586	-	-	172,586
Tuition	119,508	-	-	119,508
Fund for the Arts	108,000	-	-	108,000
Special events, net of expense	76,516	-	-	76,516
Tours and exhibits	39,799	-	-	39,799
Event rental income	7,959	-	-	7,959
Retail shop	4,913	-	-	4,913
In-kind contributions	4,050	-	-	4,050
Membership fees	10,080	-	-	10,080
Change in beneficial interest in assets held by others	-	-	(34,744)	(34,744)
Other income	1,524	-	-	1,524
Interest income	3,660	-	-	3,660
Net loss on disposal of property	(22,043)	-	-	(22,043)
Net assets released from restriction	1,797,503	(1,797,503)	-	-
Total revenues and other support	2,398,953	(1,440,630)	(29,494)	928,829
Expenses:				
Program expenses	542,304	-	-	542,304
General and administration	119,484	-	-	119,484
Fundraising	47,902	-	-	47,902
Total expenses	709,690	-	-	709,690
Change in net assets	1,689,263	(1,440,630)	(29,494)	219,139
Net assets, beginning of year	3,696,776	1,440,630	164,879	5,302,285
Net assets, end of year	\$ 5,386,039	\$ -	\$ 135,385	\$ 5,521,424

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statement of Functional Expenses

Year Ended June 30, 2017

	Science and Art Classes	General and Admin	Fundraising	Total
Salaries and wages	\$ 358,476	\$ 73,216	\$ 21,255	\$ 452,947
Depreciation	185,849	7,908	3,955	197,712
Payroll taxes	29,682	6,062	1,760	37,504
Utilities	31,065	1,322	661	33,048
Supplies	27,908	3,105	-	31,013
Insurance	24,007	1,022	510	25,539
Other employee expense	11,276	2,303	668	14,247
Science explorers	11,295	-	-	11,295
Printing	8,534	1,600	533	10,667
Repairs and maintenance	8,555	364	182	9,101
Interest expense	-	8,851	-	8,851
Retail shop expense	8,168	-	-	8,168
Other administrative expense	-	7,401	-	7,401
Credit card and bank fees	-	7,055	-	7,055
Advertising and website	3,265	-	3,265	6,530
Postage	5,023	942	314	6,279
Professional services	-	6,094	-	6,094
Other program expense	5,537	-	-	5,537
Equipment rent	3,483	653	218	4,354
Telephone	2,182	409	136	2,727
Art exhibit	2,384	-	-	2,384
In-kind donations:				
Supplies	3,670	-	-	3,670
Landscaping	8,162	-	-	8,162
Total expenses	<u>\$ 738,521</u>	<u>\$ 128,307</u>	<u>\$ 33,457</u>	<u>\$ 900,285</u>

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statement of Functional Expenses

Year Ended June 30, 2016

	<u>Science and Art Classes</u>	<u>General and Admin</u>	<u>Fundraising</u>	<u>Total</u>
Salaries and wages	\$ 309,039	\$ 82,802	\$ 33,342	\$ 425,183
Depreciation	74,385	3,165	1,583	79,133
Payroll taxes	27,908	7,477	4,075	39,460
Utilities	15,638	665	333	16,636
Supplies	22,831	1,897	3,011	27,739
Insurance	21,162	901	450	22,513
Other employee expense	13,714	3,674	1,480	18,868
Science explorers	16,193	-	-	16,193
Printing	8,117	1,522	507	10,146
Repairs and maintenance	4,133	176	88	4,397
Interest expense	-	163	-	163
Retail shop expense	2,461	-	-	2,461
Other administrative expense	-	4,248	-	4,248
Credit card and bank fees	-	5,590	-	5,590
Advertising and website	2,448	-	2,448	4,896
Postage	2,380	446	149	2,975
Professional services	-	5,450	-	5,450
Other program expense	9,165	-	-	9,165
Equipment rent	4,625	867	289	5,781
Telephone	2,350	441	147	2,938
Art exhibit	1,705	-	-	1,705
In-kind donations:				
Supplies	-	-	-	-
Landscaping	4,050	-	-	4,050
Total expenses	<u>\$ 542,304</u>	<u>\$ 119,484</u>	<u>\$ 47,902</u>	<u>\$ 709,690</u>

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statements of Cash Flows

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Change in net assets	\$ (150,915)	\$ 219,139
Adjustments to reconcile change in net assets to net cash flows provided by operating activities:		
Depreciation	197,712	79,133
Contributions to endowment fund	-	(5,250)
Amortization of pledges receivable	(5,622)	(11,686)
Change in beneficial interest in assets held by others	(7,079)	34,744
Loss on disposal of property and equipment	-	22,043
Changes in operating assets and liabilities:		
Accounts receivable	(12,455)	7,264
Pledges receivable	185,000	283,912
Accounts payable	(198,974)	1,064
Accrued payroll and related expense	2,810	6,389
Deferred revenue	6,675	(1,886)
Net cash provided by operating activities	17,152	634,866
Cash flows from investing activities:		
Change in certificates of deposit	-	1,004,022
Purchases of property and equipment	(93,410)	(2,868,187)
Net cash used in investing activities	(93,410)	(1,864,165)
Cash flows from financing activities:		
Net (repayments) borrowings on line of credit	(745)	70,000
Borrowings on note payable	250,265	-
Repayment of note payable	(3,258)	-
Net cash provided by financing activities	246,262	70,000
Net increase (decrease) in cash and cash equivalents	170,004	(1,159,299)
Cash and cash equivalents, beginning of year	101,342	1,260,641
Cash and cash equivalents, end of year	\$ 271,346	\$ 101,342

See accompanying notes.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Statements of Cash Flows, continued

Years Ended June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 8,851	\$ 163
Noncash investing and financing transactions:		
Purchase of property and equipment through accounts payable	\$ -	\$ 201,874

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 1 – NATURE OF ACTIVITIES

The Living Arts and Science Center, Inc. (the Center) was organized as a not-for-profit organization in 1968 to provide creative and educational opportunities in the arts and sciences accessible to all children and adults in the central Kentucky area. The Center provides classes at its own facility and works with numerous social service agencies, school systems, community groups, and the local government to provide no-cost and low-cost arts and science programs to at-risk and underserved children and adults.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Center follows the accounting standards set by the Financial Accounting Standards Board (FASB). FASB sets the accounting principles generally accepted in the United States of America (GAAP) that the Center follows to ensure the financial condition, results of operations, and cash flows are consistently reported. References to GAAP issued by FASB in these footnotes are to the FASB Accounting Standards Codification (ASC).

The following is a summary of significant accounting policies consistently followed by the Center in the preparation of its financial statements.

Basis of Accounting

The financial statements of the Center have been prepared on the accrual basis of accounting and accordingly, reflect all significant receivables, payables, and other liabilities. Revenues are recognized when earned and expenses are recognized when incurred.

Basis of Presentation

The financial statements of the Center have been prepared following the recommendation of ASC 958-205, *Nonprofit Organization Entities, Presentation of Financial Statements*. Under the provisions set forth therein, the Center is required to report information on activities under three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets based on the existence or absence of donor-imposed restrictions.

Use of Estimates

In preparing financial statements in accordance with GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets, liabilities, support and revenues, and expenses during the reporting period. Actual results could differ from those estimates.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Fair Value Measurements

The Center follows the provisions of ASC 820, *Fair Value Measurements and Disclosures*, for fair value measurements of financial assets and financial liabilities, and for fair value measurements of nonfinancial items that are recognized or disclosed at fair value in the financial statements on a recurring basis. ASC 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. ASC 820 also establishes a three-tier hierarchy to classify fair market measurements for disclosure purposes. Inputs refer broadly to the assumptions that market participants would use in pricing the asset or liability, including assumptions about risk.

The three-tier hierarchy of inputs is summarized in the three broad levels listed as follows:

- Level 1 – Quoted prices in active markets for identical assets
- Level 2 – Other significant observable inputs (including quoted prices for similar assets, interest rates, prepayment speeds, and credit risk)
- Level 3 – Significant unobservable inputs (including the Center's own assumptions in determining the fair value of assets)

Financial Instruments

Financial instruments included in the Center's statements of financial position include cash and cash equivalents, accounts receivable, pledges receivable, beneficial interest in assets held by others, accounts payable, accrued payroll and related expense, line of credit and note payable. The carrying value of cash and cash equivalents, accounts receivable, accounts payable, accrued payroll and related expense, and the line of credit approximates fair value due to the short maturity of these instruments (Level 2). The carrying value of the note payable approximates fair value and is based on future cash flows discounted at an applicable interest rate that is consistent with similar debt instruments (Level 2). Pledges receivable and beneficial interest in assets held by others are measured at fair value on a recurring basis using Level 3 inputs.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include operating cash and all highly liquid investments with original maturities of three months or less.

Accounts Receivable

Accounts receivable consists primarily of tuition and other program fees receivable. Management considers accounts receivable to be fully collectible and therefore no allowance for uncollectible receivables has been recorded.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

Pledges Receivable

Pledges receivable are unconditional promises to give that are expected to be collected in future years and are recorded at the present value of estimated future cash flows (Level 3). The discounts on those amounts are computed using risk-free interest rates applicable to the years in which the promises were received. Amortization of the discounts is included in contribution revenue. Management considers pledges receivable to be fully collectible and therefore no allowance for uncollectible pledges has been recorded.

Beneficial Interest in Assets Held by Others

The Center has a beneficial interest in investments held in an endowment fund by the Blue Grass Community Foundation, which consists of funds contributed by the Center and donors, and includes earnings thereon, net of distributions and fees.

Property and Equipment

Property and equipment is recorded at cost as of the date of acquisition or fair value as of the date of receipt in the case of donations. Acquisitions of equipment in excess of \$500 are capitalized. Depreciation is recorded using the straight-line method over estimated useful lives of the respective assets, which range from 5 to 40 years. Donated fixed assets are capitalized at their estimated fair market values at the date of receipt.

Revenue Recognition

In accordance with ASC 958-605, *Not-for-Profit Entities: Revenue Recognition*, contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction. If a restriction is fulfilled in the same period in which the contribution is received, the Center reports that support as unrestricted.

Conditional pledges are recognized as receivable only to the extent the condition has been satisfied. Grant awards which are considered to be exchange transactions are recognized as grant revenue as the expenses stipulated in the grant agreement have been incurred. Tour fees and class tuition are recognized in the period the events take place. Membership dues are recognized as revenue in the applicable membership period. Prepayments of fees and dues are reported as deferred revenue.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

In-Kind Contributions

Contributions of donated noncash assets are reported at their fair values in the period received. Contributions of donated services that create or enhance nonfinancial assets or that require specialized skill, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

Advertising

The Center uses advertising to promote its programs in the community it serves. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2017 and 2016 totaled \$5,573 and \$4,041, respectively.

Tax Exempt Status

The Center is a not-for-profit corporation, other than a private foundation, organized under Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes, except for tax on unrelated business income. Management is not aware of any taxable unrelated business income for the years ended June 30, 2017 and 2016. Accordingly, no income tax expense is reflected in the accompanying financial statements.

In accordance with ASC 740-10, *Accounting for Uncertainty in Income Taxes*, the Center's management has evaluated tax positions taken on all income tax returns that remain open to examination by the respective taxing authorities and does not believe there are any uncertain tax positions on those returns that require recognition or disclosure in the financial statements. The federal information returns are subject to examination by the IRS generally for three years after the statutory due date of the returns.

Functional Allocation of Expenses

Expenses that can be directly attributed to a particular function are charged to that function. Certain indirect costs have been allocated among program services, general and administration, and fundraising based on management's estimates of the portion of the costs applicable to each function.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified to conform to current year presentation. These reclassifications had no effect on previously reported change in net assets.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

New Pronouncements

In August 2016, FASB issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. ASU 2016-14 changes how a not-for-profit entity classifies its net assets and the information it presents in the financial statements and notes about liquidity, financial performance, and cash flows. ASU 2016-14 is effective for the Center for the year ended June 30, 2019. The Center's management is currently evaluating the effect this new standard will have on its financial statements.

In February 2016, FASB issued ASU 2016-02, *Leases*. ASU 2016-02 requires entities to recognize all leased assets as right-of-use assets in the statement of financial position with a corresponding liability. Entities will also be required to present additional disclosures regarding the nature and extent of leasing activities. ASU 2016-02 is effective for the Center for the year ended June 30, 2020. The Center's management is currently evaluating the effect this new standard will have on its financial statements.

In May 2014, FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. This ASU establishes principles for reporting useful information to users of financial statements about the nature, amount, timing, and uncertainty of revenue and cash flows arising from the entity's contracts with customers. ASU 2014-09 requirements are effective for the Center for the year ended June 30, 2020. The Center's management is currently evaluating the effect this new standard will have on its financial statements.

NOTE 3 – PLEDGES RECEIVABLE

Pledges receivable include unconditional promises to give that have been discounted at rates ranging from 1.01% to 1.63%. The following is a summary of the Center's pledges receivable as of June 30:

	<u>2017</u>	<u>2016</u>
Unconditional promises to give	\$ 245,000	\$ 430,000
Less unamortized discount	(3,778)	(9,400)
	<u>\$ 241,222</u>	<u>\$ 420,600</u>

Pledges receivable are due as follows for years ended June 30:

2018	\$ 195,000
2019	50,000
	<u>\$ 245,000</u>

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 3 – PLEDGES RECEIVABLE, CONTINUED

Presented below is a reconciliation of activity for the years ended June 30:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 420,600	\$ 692,826
Additions	-	250,000
Collections	(185,000)	(530,932)
Adjustment for net present value	5,622	8,706
Ending balance	<u>\$ 241,222</u>	<u>\$ 420,600</u>

NOTE 4 – BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

The Center has entered into an irrevocable agreement with the Blue Grass Community Foundation (BGCF), to establish an agency endowment fund (the Fund) for charitable and educational purposes. The Center is named as the beneficiary of the Fund in this agreement. The BGCF maintains variance power and legal ownership. Distribution of Fund earnings are at the discretion of the BGCF's Board of Directors and the funds are invested in accordance with the BGCF's investment policies. In accordance with ASC 958-605, *Transfers of Assets to a Not-for-Profit Organization or Charitable Trust that Raises or Holds Contributions for Others*, the BGCF includes the Fund as assets of the BGCF in its financial statements and reports a corresponding liability for the amounts attributable to the Center.

The Center utilizes fair value measurements to record fair value adjustments to beneficial interest in assets held by the BGCF and to determine fair value disclosures. The Center is allocated its portion of the total fair values of the underlying securities held by the BGCF (Level 3). The majority of the BGCF's investments are equity securities with a smaller allocation in fixed income securities and a relatively minor allocation in alternative investments.

The following table sets forth a summary of changes in the fair value of assets held by the BGCF as of June 30:

	<u>2017</u>	<u>2016</u>
Beginning balance	\$ 135,385	\$ 164,879
Contributions	-	5,250
Investment gain (loss)	13,950	(3,348)
Distributions	(6,182)	(30,684)
Fees	(689)	(712)
Ending balance	<u>\$ 142,464</u>	<u>\$ 135,385</u>

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 5 – PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2017</u>	<u>2016</u>
Buildings and improvements	\$ 5,353,249	\$ 5,261,889
Program equipment	186,300	184,250
Land	145,000	145,000
Land improvements	70,800	70,800
Vehicles	20,592	20,592
Office equipment	11,171	11,171
	<u>5,787,112</u>	<u>5,693,702</u>
Less accumulated depreciation	<u>(692,731)</u>	<u>(495,019)</u>
	<u>\$ 5,094,381</u>	<u>\$ 5,198,683</u>

NOTE 6 – ENDOWMENT FUND

The Center has adopted the enhanced disclosure provisions of ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which provides for improved disclosures about an organization's endowment funds. The Center also follows the provisions of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA) which was adopted by the commonwealth of Kentucky in March 2010.

The Center's endowment fund consists of investments held by the BGCF (Note 4) and includes contributions from donors and from the Center as designated by the Board of Directors. For accounting and financial statement purposes, the Center classifies the value of assets held by the BGCF as permanently restricted net assets. The Center does not have an investment policy. In approving endowment, spending and related policies as part of the prudent and diligent discharge of its duties, the Center's Board of Directors, as authorized by Kentucky law, relies upon the actions, reports, information, advice and counsel from its third-party trustee, the BGCF. The BGCF's investment policies are available on the BGCF website.

NOTE 7 – NET ASSET CLASSIFICATION

Temporarily restricted net assets include gifts for which donor imposed restrictions have not been met. There were no temporarily restricted net assets as of June 30, 2017 and 2016. Permanently restricted net assets consist of a beneficial interest in assets held by others and totaled \$142,464 and \$135,385 as of June 30, 2017 and 2016, respectively.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 8 – LINE OF CREDIT

In March 2016, the Center obtained line of credit with a financial institution which allows for borrowings of up to \$400,000, with interest at the prime rate (4.5% as of June 30, 2017). The line is secured by all personal property of the Center and matures in March 2018. Outstanding borrowings totaled \$69,255 and \$70,000 as of June 30, 2017 and 2016, respectively. This line was paid in full subsequent to year-end.

NOTE 9 – NOTE PAYABLE

In January 2017, the Center entered into a mortgage note payable with a financial institution for \$250,000. The note is payable in monthly installments of \$1,590 including interest at the prime rate (4.5% as of June 30, 2017). This note is secured by real property and matures January 27, 2027.

Future maturities under this note are as follows for the years ended June 30:

2018	\$	7,991
2019		8,363
2020		8,724
2021		9,159
2022		9,586
Thereafter		<u>203,184</u>
		247,007
Less: current portion		<u>7,991</u>
	\$	<u><u>239,016</u></u>

NOTE 10 – LEASES

The Center leased a copier under an operating lease agreement that expired in November 2016. Expense related to this lease totaled \$4,113 and \$4,090 for the years ended June 30, 2017 and 2016, respectively. The Center signed a new operating lease agreement for two copiers starting January 2017. Future minimum lease payments under this lease total \$3,972 per year through December 2021.

NOTE 11 – DONATED SERVICES

Various individuals and organizations donated services to the Center. The excess of the fair value of services over the amount paid by the Center has been recognized as revenue and expense in the period the service was provided. The total recognized for landscaping services was \$8,162 and \$4,050 for the years ended June 30, 2017 and 2016, respectively.

THE LIVING ARTS AND SCIENCE CENTER, INC.

Notes to the Financial Statements

NOTE 12 – RETIREMENT PLAN

During 2009, the Center initiated a Simple IRA plan for full-time employees earning more than \$5,000. Eligible employees may contribute up to the maximum amount allowed by the Internal Revenue Code. The Center matches employee contributions up to three percent of an employee's salary. Retirement expense for the Center was \$7,189 and \$8,133 for the years ended June 30, 2017 and 2016, respectively.

NOTE 13 – RELATED PARTY TRANSACTIONS

Members of the Board of Directors have contributed their financial support and volunteered time to the Center. The financial contributions are included in revenue in the statement of activities.

NOTE 14 – CONCENTRATIONS

Financial instruments that potentially subject the Center to concentrations of credit risk consist principally of cash deposits and promises to give receivables.

The Center maintains its cash balances at financial institutions in Lexington, Kentucky which, are insured by the Federal Deposit Insurance Corporation (FDIC) for up to \$250,000. As of June 30, 2017, the Center had no uninsured balances.

As of June 30, 2017 and 2016, respectively, 92% and 93% of all pledges receivable were due from two donors.

NOTE 15 – CAPITAL CAMPAIGN

During fiscal 2012, the Center launched a \$5 million capital campaign to renovate and expand its facilities. The Center received over \$5.4 million in pledges, contributions and grants during this campaign. Payments to vendors related to the renovation and expansion project totaled \$295,285 and \$2,868,187 during the years ended June 30, 2017 and 2016, respectively. The new facilities were placed in service in March 2016.

NOTE 16 – SUBSEQUENT EVENTS

The Center's management has evaluated subsequent events for accounting and disclosure requirements through January 11, 2018, the date which the financial statements were available to be issued. Except as described in Note 8, there were no events occurring during the evaluation period that require disclosure or recognition in the financial statements.